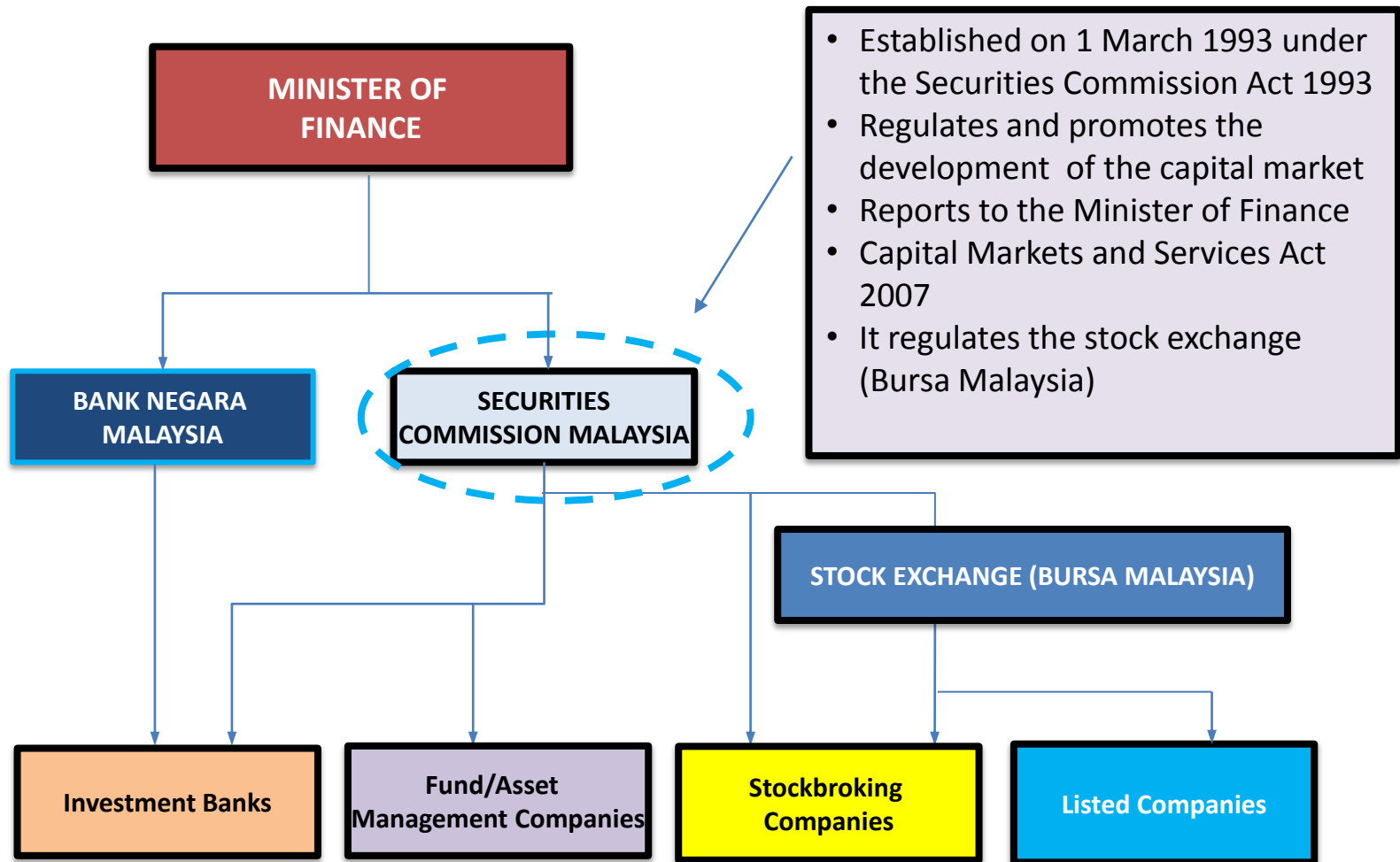


Sukuk as Alternative Financing for Waqf Development Projects and its Relation to Sustainable and Responsible Investment

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BACKGROUND OF CAPITAL MARKETS & ISLAMIC CAPITAL MARKETS

CAPITAL MARKET INSTITUTIONAL FRAMEWORK IN MALAYSIA



SC's REGULATORY MANDATE

Rule-making

Custodian of Capital Markets and Services Act 2007 and various securities-related regulation and guidelines

Supervision

Conducts oversight of intermediaries and exchange for ethical business conduct and prudent compliance and risk management practices

Licensing

A gatekeeping function: assesses individuals and companies operating in the capital market meet “fit and proper” requirements and have relevant capabilities

Surveillance

Conducts surveillance of markets to ensure fair and orderly markets and of PLCs to ensure timely and accurate disclosures and good governance

Approvals

A gatekeeping function: Regulates offerings and issuance of securities and financial products

Enforcement

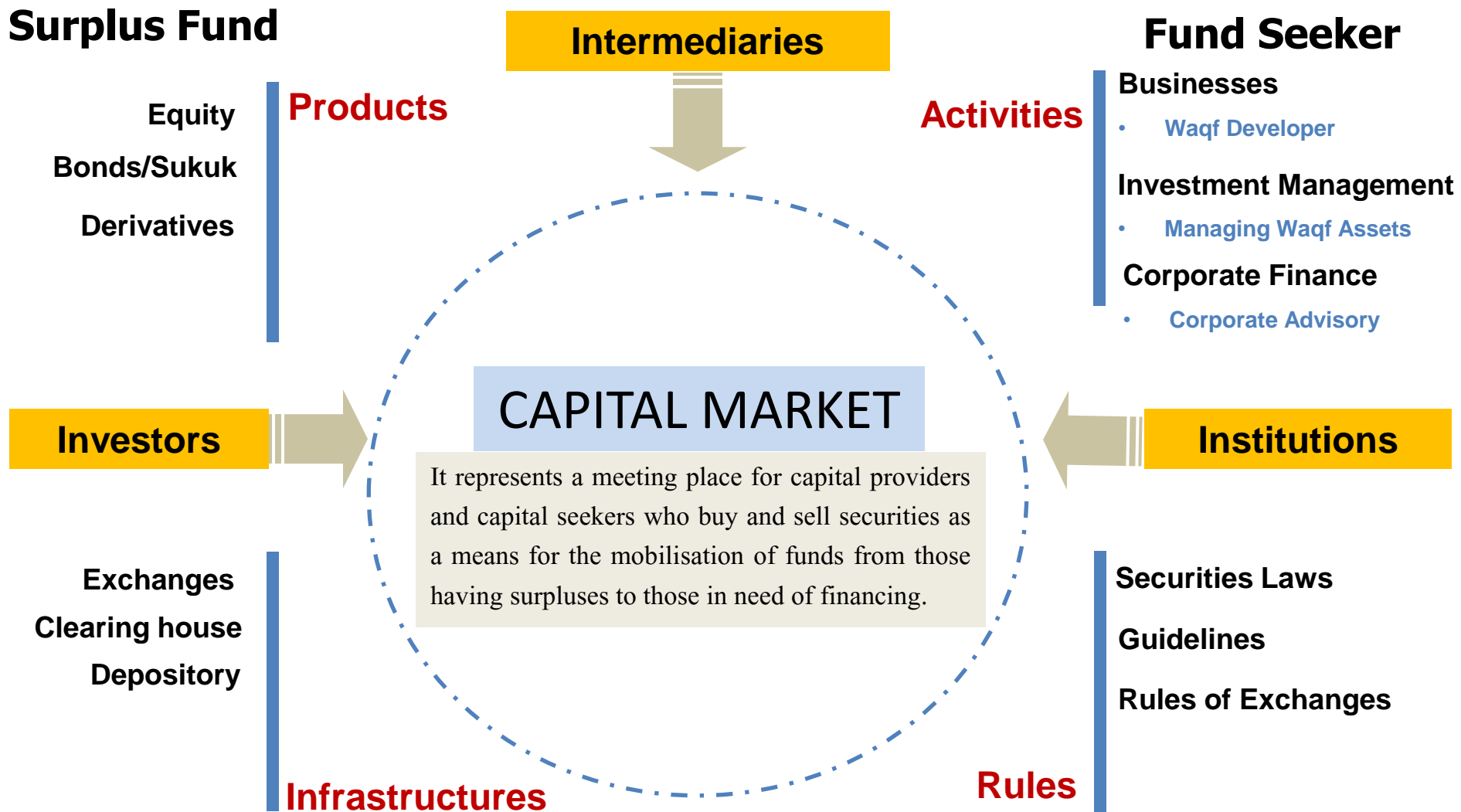
Undertakes various enforcement actions for breaches of securities laws

Others

As the capital market expands, SC's responsibilities and oversight have expanded to cover a broader range of participants such as trustees, rating agencies and activities such as investor education and the Audit Oversight Board

7 Regulated Activities under CMSA (Schedule 2):

1. Dealing in securities
2. Dealing in derivatives
3. Fund management
4. Dealing in Private Retirement Scheme
5. Advising on corporate finance
6. Investment advice
7. Financial planning

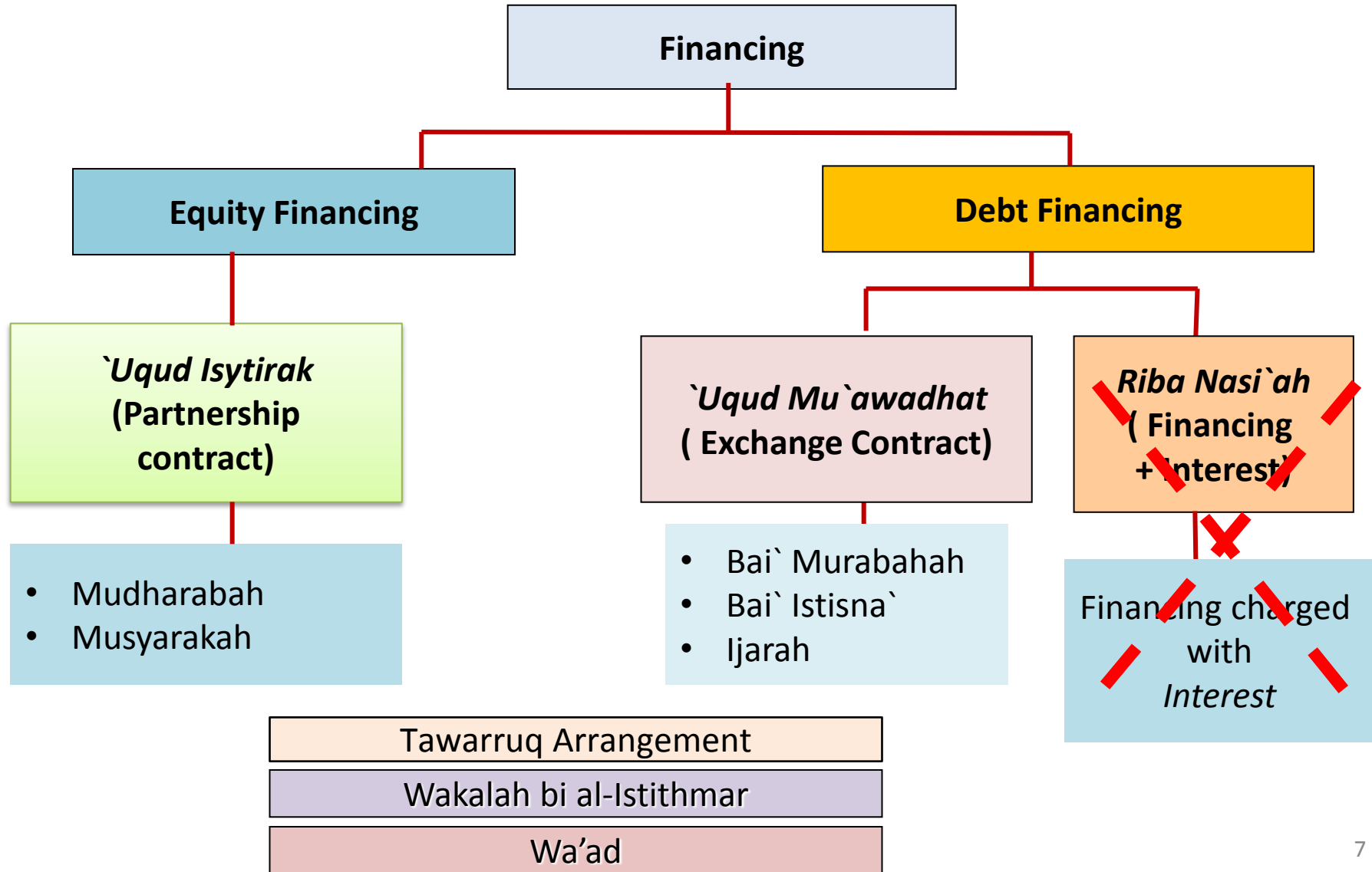


The Islamic Capital Markets (ICM) on the other hand refers to a market where the capital market transactions, operations and activities are carried out in ways that consistence with Shariah principles and requirements.

Shariah (Islamic law) requirements:

- Prohibition of payment or receipt of interest, or *riba*.
- Prohibition of activities with elements of *gharar* (ambiguity)
- Prohibition of *maisir* (gambling) activities
- Prohibition of the production and sale of goods and services that are prohibited in Islam

SHARIAH CONTRACTS RELATING TO ICM



WAQF AND ITS POTENTIAL

DEFINITION OF WAQF AND ITS TYPES

WAQF DEFINITION

LITERAL:

Stopped/retained
(*Al-habs*)

TECHNICAL (ISTILAH):

Voluntary and irrevocable dedication of one's wealth or a portion of it - in cash or kind, and its disbursement for shariah compliant projects

TYPES OF WAQF

General Waqf ('Amm)

- ✓ The purpose of the waqf asset is not specified by the waqif.
- ✓ Beneficiary of the waqf asset is general/public

Specific Waqf (Khas)

- ✓ The purpose of the waqf asset is specified by the waqif.
- ✓ Beneficiary of the waqf asset is specific/limited to intended purpose

CLASSIFICATION OF WAQF ASSET

CLASSIFICATION OF WAQF ASSET

MOVABLE

It takes a form of tangible assets and movable (e.g. Al-Quran, books, equipment, vehicles etc.) that enables the beneficiaries to benefit from the usufruct of the assets in line with the intended purposes.

IMMOVABLE

It takes a form of tangible assets but immovable (e.g. buildings, houses etc.) where it enables the beneficiaries to benefit through the income generated by the asset (e.g. rental income) or usufruct of the asset itself in line with the intended purposes.

CASH

Is a form of liquid asset that can be channeled immediately towards certain investment objectives, and the dividends/capital gains derived can be utilised to meet the intended purposes.

Cash waqf can either directly be used as cash or to be converted to immovable assets/property (e.g. building) **or** financial instruments (e.g. shares, securities, investments).

PERMISSIBILITY OF CASH WAQF AND WAQF MUAQQAT

Cash Waqf

- ✓ Scholars from Maliki, Hanifi and Hanbali school of thoughts have allowed waqf to be in the form of cash.
- ✓ If cash is collected and subsequently utilized to purchase fixed asset(s) that will be the waqf asset, definitely there would be no issues as the asset would satisfy the requirements for waqf asset.

Waqf Muaqqat

- ✓ Waqf Muaqqat (waqf for a specific period) on the other hand is allowed according to some views from Shafi'i, Maliki school of thought and Abu Yusuf.

WAQF AS MEDIUM TO ACHIEVE ECONOMIC & COMMERCIAL BENEFITS

WAQF : ECONOMIC & COMMERCIAL PERSPECTIVES

Trust Business

- ✓ As waqf assets need trustee to safeguard and manage the assets for the benefit of beneficiaries, thus the trustee role can be undertaken by organisations/institutions that are offering trust businesses.
- ✓ Trustee in return could receive management fees thus companies that run trust business could sustain and grow.
- ✓ Hence, waqf can be **one of business avenues** for trust business.

Asset/Property/Fund Managers

- ✓ Corporate/cash waqf on the other hand can be managed by **professional** asset/property/fund managers on behalf of waqf institutions through collaboration between waqf institutions and established asset/property/fund managers.
- ✓ In return, manager is entitled for management/service fees where it could help them to grow economically or commercially.
- ✓ Hence, waqf can be a **subset** of asset management businesses, fund management business as well as property development business.

Channelling To Beneficiaries

When waqf assets are properly and effectively managed in line with Shariah, the beneficiaries would be able to benefit accordingly hence meeting the objectives of waqf while attaining economic and commercial benefits

WAQF & INNOVATION

WAQF AS CATALYST

Waqf system is an important catalyst for economic development

INNOVATION

Innovation is needed to ensure the sustainability of Waqf development

Example: Waqf Sukuk



MANAGEMENT

Efficient, professional and transparent Waqf management are essentials for the continuity of Waqf development

SUKUK IN MALAYSIA

- ✓ Malaysia has issued various sukuk for [property development/infrastructure/education/health/SRI etc.](#)
- ✓ Malaysia remains as world's largest Sukuk issuer and have expertise in Sukuk
- ✓ **2015: 67% of Global Sukuk Outstanding is dominated by Malaysia**

INCOME GENERATION FOR WAQF THROUGH SUKUK

ICM AS ALTERNATIVE FOR WAQF DEVELOPMENT

Waqf institutions shall consider other mediums to fulfill waqf's funding needs to further spur the growth of waqf projects.

Islamic capital markets can be one of the alternatives to fund the potential waqf projects which will further elevate waqf development that is undoubtedly beneficial to society/ummah.

Sukuk

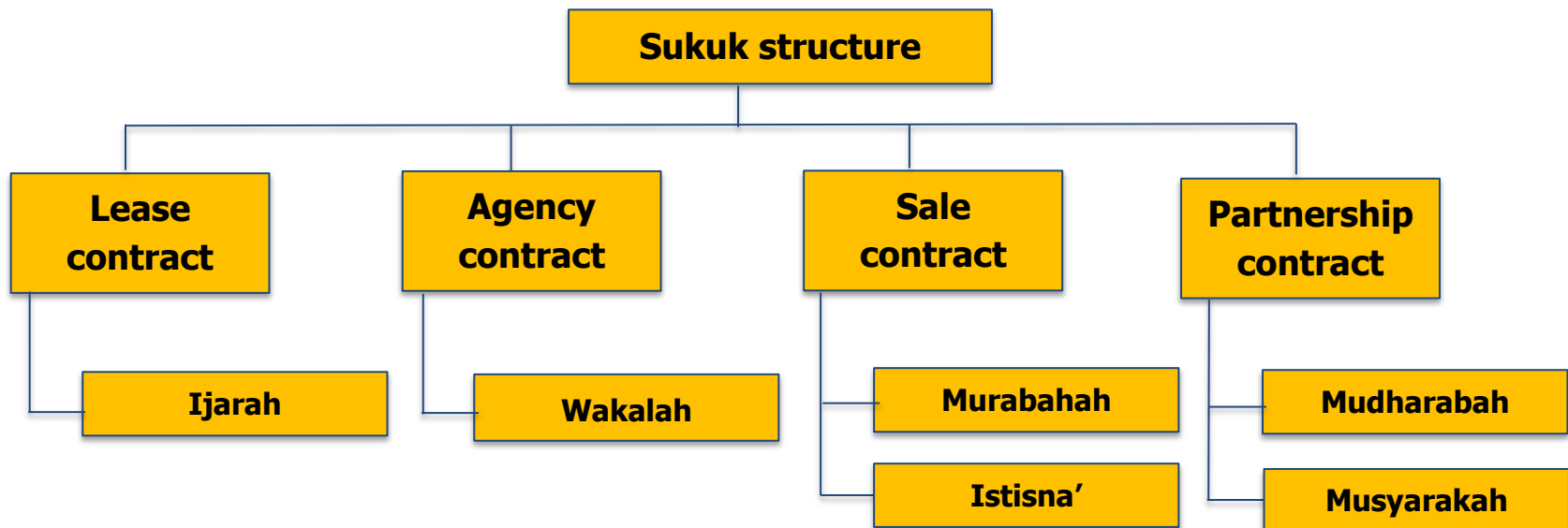
as product
innovation to fund
and develop waqf
assets

SUKUK DEFINITION

Sukuk definition according to the SC:

"Sukuk refers to certificates of equal value which evidence undivided proportionate ownership or investment in the assets using Shariah principles and concepts that have been approved by the Shariah Advisory Council (SAC) of SC."

Diagram 1: Structuring sukuk via Shariah contracts



FEATURES OF SUKUK

Sukuk

Sukuk is widely used in Islamic capital markets to fund economic activities that is in accordance with Shariah principles

It has flexible features; can be structured to fulfil the needs of short, medium and long-term funding

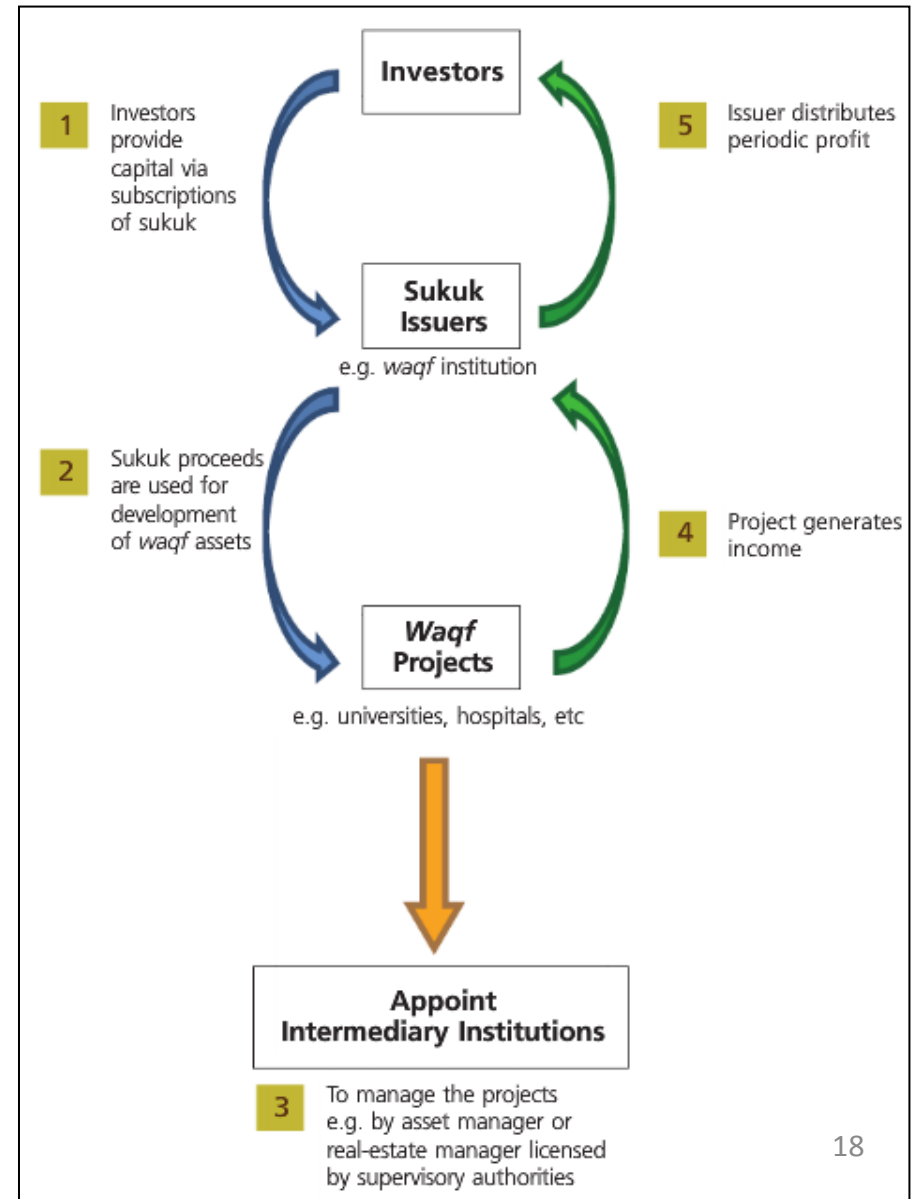
Can be issued for various purposes e.g. working capital and capital expenditure depending on investment value and risk appetite of the investors

DEVELOPMENT OF WAQF PROJECTS THROUGH SUKUK

Example of waqf projects that can be developed:

- ✓ Hospitals
- ✓ Universities
- ✓ Social Projects
- ✓ Hotels
- ✓ Clinics
- ✓ Commercial centres

and other projects as long as they are in accordance with Shariah and has fulfilled the requirements



EXAMPLE OF GLOBAL SUKUK DEVELOPMENT

In Singapore and Saudi Arabia, sukuk has successfully been issued for the purpose of waqf development and proven to be beneficial in meeting the needs of societies.

	Singapore	Saudi Arabia
Year	2002	2000
Purpose	Redevelopment of an old mosque into a multi-storey complex (Bencoolen Street)	Development of apartment tower (Zamzam tower)
Contract	Mushakarah	Ijarah Mawsufah Fi Zimmah



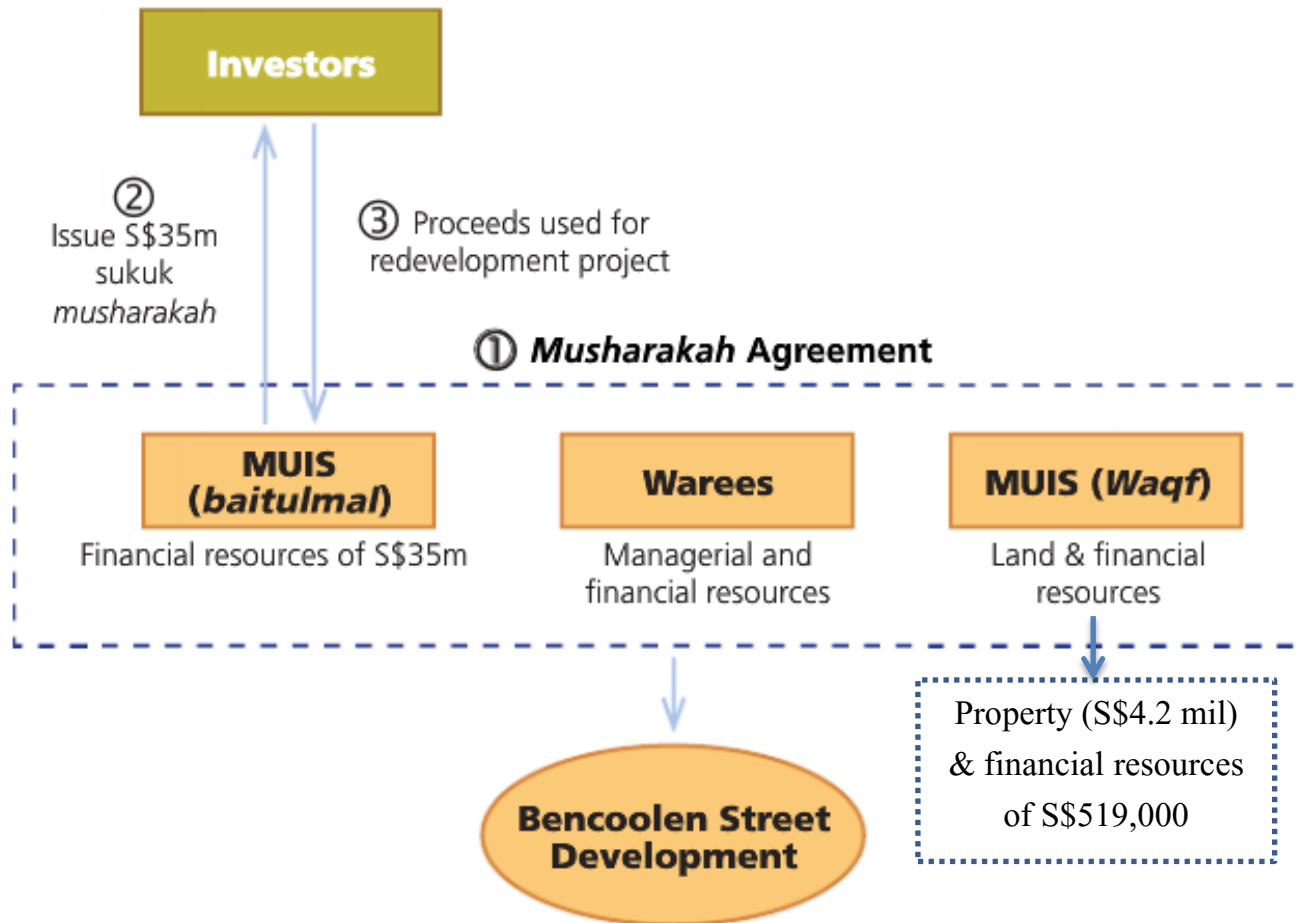
Annual Rental of the Asset for Bencoolen Street

Before	After
\$19,000	\$5.3 mil ¹⁹

ILLUSTRATION ON BENCOOLEN STREET WAQF

\$35M Sukuk Musharakah for Bencoolen Street in Singapore by MUIS

Phase 1 : Redevelopment through partnership



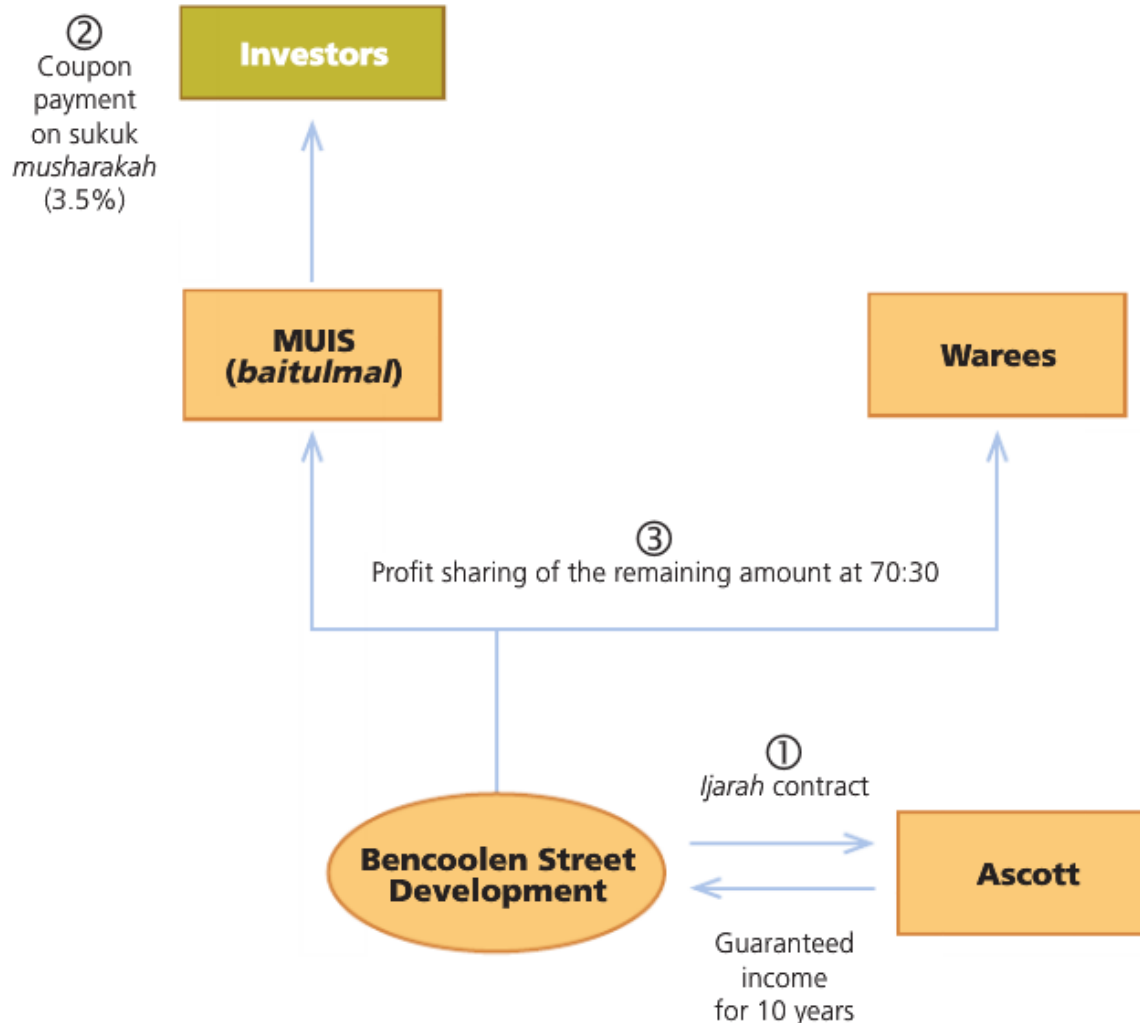
Notes:

1. MUIS (Baitulmal), Warees and MUIS (Waqf Fund) entered into a musharakah agreement.
2. Sukuk musharakah was issued to the investors
3. Proceeds from the issuance were used for the redevelopment of Bencoolen Street Projects

ILLUSTRATION ON BENCOOLEN STREET WAQF (cont.)

\$35M Sukuk Musharakah for Bencoolen Street in Singapore by MUIS

Phase 2 : Distribution of returns



Notes:

1. Ascott Investment Pte Ltd (Ascott) Signed a 10-year *ijarah* to lease the apartments of the Bencoolen Street Project.
2. Investors received an annual profit of 3.5% from the rental income.
3. The remaining profit amount is shared between MUIS (baitulmal) and Warees based on 70:30 profit-sharing ratio.

SRI SUKUK FRAMEWORK & ITS APPLICATION

SRI SUKUK FRAMEWORK

SRI Sukuk Framework was launched by the SC to facilitate the financing of sustainable and responsible investment (SRI) initiatives through the instrument of sukuk.

Background of the framework:

- ✓ It was launched on 28 August 2014 and was first announced in 2014 budget speech.
- ✓ In 2016 Budget, SRI Sukuk that has been approved by the SC is exempted from tax charges for the period of 5 years.
- ✓ This framework is in line with initiatives outlined under Capital Markets Master Plan 2 issued by the SC and intended to meet the demand of both retail and sophisticated investors for access to a wider range of investment products and to facilitate greater participation in the sukuk market.
- ✓ Through this framework, **Waqf development** is one of the approved eligible projects for SRI Sukuk under *Guidelines on Unlisted Capital Market Products Under the Lodge and Launch Framework* (chapter 7) dan *Guidelines On Issuance Of Private Debt Securities And Sukuk To Retail Investors* (chapter 20).

SRI SUKUK FRAMEWORK (cont.)

Objectives of the eligible projects under SRI Sukuk Framework:

Preserve and protect the environment and natural resources

Conserve the use of energy

Promote the use of renewable energy

Reduce greenhouse gas emission

Improve the quality of life for the society

SRI SUKUK FRAMEWORK (cont.)

The proceeds from SRI Sukuk needs to be channelled to the following eligible projects:

NATURAL RESOURCES

- Sustainable land use
- Sustainable forestry and agriculture
- Biodiversity conservation
- Remediation and redevelopment of polluted or contaminated sites
- Water infrastructure, treatment and recycling
- Sustainable waste management projects

RENEWABLE ENERGY & ENERGY EFFICIENCY

- New or existing renewable energy (solar, wind, hydro, biomass, geothermal and tidal)
- Efficient power generation and transmission systems
- Energy efficiency which results in the reduction of greenhouse gas emissions or energy consumption per unit output

COMMUNITY AND ECONOMIC DEVELOPMENT

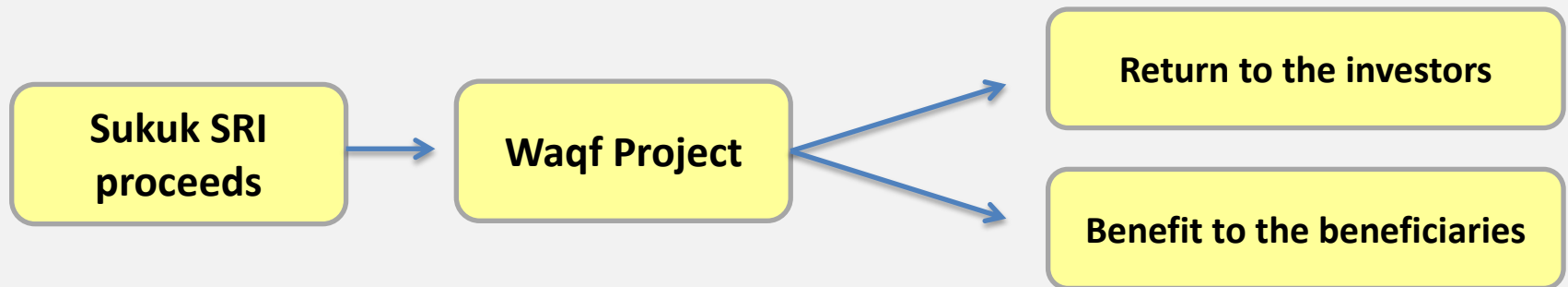
- Public hospital/medical services
- Public educational services
- Community services
- Urban revitalisation
- Sustainable building projects
- Affordable housing

WAQF PROPERTIES/ASSETS

- Any projects that undertake the development of waqf properties /assets

APPLICATION OF SRI SUKUK IN WAQF DEVELOPMENT

- ✓ Through SRI Sukuk issued by corporate sector, the capital invested could be utilized for waqf development purposes until the waqf assets could generate income on its own. Subsequently, the sukukholders will receive back their invested capital while the beneficiaries of the waqf project would be able to benefit from it.



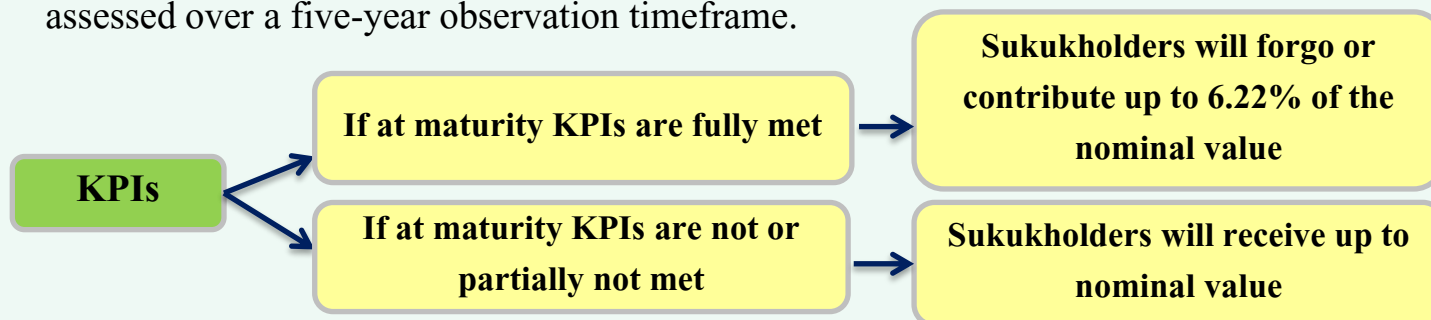
- ✓ As sukuk is regulated by the SC, investors' protection are properly served through the comprehensive regulation system where through it, waqf projects could be managed in a transparent and proper manner hence gaining the confidence of investors.
- ✓ In realizing the innovations, Shariah Advisory Council (SAC) of the SC plays a crucial role in supporting product innovations that at the same time fulfilling the Shariah requirements.

SRI SUKUK DEVELOPMENT- Local



KHAZANAH
NASIONAL

- ✓ Khazanah Nasional Berhad (“Khazanah”) successfully offered and priced a RM100 million seven-year Sustainable and Responsible Investment Sukuk (“the Sukuk”) and was issued via a Malaysian incorporated independent Special Purpose Vehicle, Ihsan Sukuk Bhd. (“Ihsan”). This issuance was pursuant to Ihsan’s RM1.0bn Sukuk Programme, the first programme approved under the SC’s SRI framework. There was participation from a diverse investor group including foundation, corporations, banks, pension fund and asset management companies.
- ✓ The Sukuk was priced at the price guidance of **4.30% p.a.** and was fully subscribed through a day of book-building. The inaugural issuance proceeds will be used to fund schools under the Yayasan AMIR (“YA”) Trust School Programme identified for 2015.
- ✓ It is measured using a set of predetermined Key Performance Indicators (“KPIs”) which are assessed over a five-year observation timeframe.





- ✓ In November 2014, The International Finance Facility for Immunisation (IFFIm) successfully entered into sukuk market by issuing USD500mil Vaccine sukuk using Shariah-compliant SRI model.
- ✓ This issuance was backed by financial support from nine sovereign governments - **United Kingdom, France, Italy, Norway, Australia, Spain, Netherlands, Sweden, and South Africa** where IFFIm raises money in the international capital markets. This funding activity is handled by the World Bank, as IFFIm's Treasury Manager, under the direction of IFFIm's volunteer Board of Directors.
- ✓ In September 2015, second Vaccine sukuk has been issued raising USD200mil
- ✓ The response was overwhelming where the sukuk has been over-subscribed and it has proven that Shariah-compliant SRI Sukuk is viable and has attracted the investor's interests.

CONCLUSION

- ✓ Waqf can be developed and innovated progressively as well as efficiently through the issuance of sukuk in ICM.
- ✓ The benefits of waqf are not limited to the investors only but more importantly the public as a whole.
- ✓ Authoritative bodies need to look at the innovations as ways to maximize the development of waqf assets for the benefits of public and ummah.
- ✓ Waqf sukuk able to generate better income for various waqf projects that will be beneficial for public and consequently spurring Islamic economic growth
- ✓ Waqf development through sukuk enables better preservation of interests for Muslims societies around the world while attaining reward in the Hereafter.

Thank you

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YEAR	SUKUK	ISSUER	CONTRACT	SIZE	TENURE
2012	Columbia Hospital Sukuk	Columbia Asia Sdn Bhd (No SPV)	Ijarah	RM 300.0 Mil	10 years
2013	DanaInfra Retail Sukuk	Government of Malaysia via DanaInfra Nasional Berhad as SPV	Murabahah (via Tawarruq arrangement)	RM 21.0 Bil	50 years
2013	KDU University College Sukuk	KDU University College Sdn. Bhd (No SPV)	Ijarah	RM 350.0 Mil	15 years
2014	TNB Western Energy Sukuk	TNB Western Energy (No SPV)	Ijarah and Wakalah	RM 4.0 Bil	27 years
2015	Mah Sing Group Sukuk	Mah Sing Group Berhad (No SPV)	Musharakah	RM 600.0 Mil	Perpetual
2016	Lebuhraya DUKE Fasa 3 Sukuk	Lebuhraya DUKE Fasa 3 Sdn Bhd (No SPV)	Wakalah bi Al istithmar	RM 3.64 Bil	23 years